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With Mr Hurd's compts.

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V. B.

THE TARIFF COMMISSION

MOST-FAVOURED-NATION ARRANGEMENTS IN RELATION TO THE PROPOSED RECIPROCAL TRADE AGREEMENT BETWEEN CANADA AND THE UNITED STATES OF AMERICA

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Sir Edward Grey's Announcement

Sir Edward Grey, Secretary of State for Foreign Affairs, replying to Mr. Remnant in the House of Commons on April 4th, 1911, said that the Government had now under examination the complicated points involved in the question of most-favoured-nation treatment as arising out of the reciprocal agreement come to in January, 1911, between the Governments of the United States and Canada.

The general aspects of most-favoured-nation treaties were dealt with in the memorandum recently published by the Tariff Commission (MM 43) entitled "Most-Favoured-Nation Arrangements and British Trade." The present memorandum shows the relation between these most-favoured-nation arrangements and the new reciprocal trade agreement. The net result of the investigations may be summed up as follows:—

The British Position

(1) The trade advantages obtained by foreign countries are the result of direct negotiations on the basis of a tariff together with such incidental advantages as arise from the operation of most-favoured-nation treaties. Having no tariff, Great Britain does not engage in similar negotiations, and receives in virtue of most-favoured-nation treaties only such advantages as arise from the negotiations of other countries carried out solely in their own interests. The present memorandum shows that the advantages thus secured by the United Kingdom are less valuable than the advantages secured by foreign countries under the methods they adopt. (See Section C.)

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The United States Position

(2) There is a difference in the interpretations of most-favoured-nation treatment as adopted by the United States and the rest of the world, and this difference becomes of immediate practical importance in connection with the proposed reciprocal arrangement between Canada and the United States. The United States has always maintained what is, in effect, the older British interpretation of concession for concession—concessions to a particular State in return for concessions from that State are only to be extended to most-favoured-nation States which give corresponding concessions. Since the adoption of Free Trade, the British principle has been—with some exceptions that most-favoured-nation countries must grant to the United Kingdom automatically and without further compensation every tariff concession extended to any other country. Under this British interpretation Canada is compelled to extend to a number of countries without equivalent the tariff concessions she is making to the United States in return for equivalent concessions (pages 3 and 6).

The Canadian Position

(3) The practical effect is that whereas under the reciprocal arrangement the United States confines its concessions to Canada, Canada must give her concessions not only to the United States but to all other countries with whom she has most-favoured-nation obligations (pages 6 to 8)

(4) This enforced enlargement of the area for concession must tend, in the absence of an Imperial principle in the negotiation of trade treaties, to compel Canada to seek release from the present obligations of most-favoured-nation arrangements. Especially would this be the case should the present reciprocal arrangement between Canada and the United States lead to the adoption of the policy of complete commercial union between the two countries which President Taft disclosed in March, 1911 (page 8).

(5) As shown in the reply of the British Government to Canada's demand in 1892, the withdrawal of Canada from Imperial treaties would throw the whole commercial system of the Empire into confusion, because it would necessarily involve the denunciation of all the Imperial treaties from which Canada desired to be released (page 7).

(6) The experience of the denunciation in 1897 of the Zollverein Treaty of 1865 shows the difficulties that arise in the re-negotiation of Imperial treaties when they have once been denounced, inasmuch as it has been found impossible to negotiate a fresh treaty with Germany up to the present time.

(7) The adoption of the United States interpretation by Canada and the other Dominions would bring about increasing tariff discriminations by foreign countries between the States of the British Empire and the Mother Country, and thus develop conditions of disintegration.

An Empire] Proposal

(8) The only way out of the difficulty would seem to be, not the abandonment of the British interpretation in favour of that of the United States, but the resumption by the Mother Country of her former power of direct negotiation so that the States of the British Empire, each possessing its negotiating tariff, should be enabled to unite in commercial negotiations with foreign countries. It has been contended by some of the representatives of the Dominions, as for instance Mr. Deakin at the Imperial Conference of 1907, that the bargaining power of each State of the Empire in its dealings with foreign countries would be greatly increased by such joint action (pages 8 and 9).

(A) DIFFERENCES OF INTERPRETATION OF MOST-FAVOURED-NATION TREATIES IN RELATION TO THE RECIPROCAL AGREEMENT.

Previous Reciprocity Arrangements of U.S.A.

There has always been a radical difference between the interpretation of the most-favoured-nation treatment as adopted by the British and United States Governments.* Hitherto this difference has been of no substantial importance in practice by reason of the nature of the items covered by the reciprocity agreements concluded by the United States. Thus the reciprocity treaties with France, Germany, and Italy covered the following items :—Art works, spirits, wines, preserved fruits and tartar ; those with Spain and Switzerland :—Art works, spirits and wine. The treaty with Portugal was concerned only with tartar, spirits and wine ; that with Holland concerned spirits ; and that with the United Kingdom, art works. None of these reciprocity treaties was renewed under the Payne-Aldrich Tariff law.

* See Tariff Commission Memorandum on "Most-Favoured-Nation Arrangements and British Trade" : MM. 43 (London : P. S. King & Son, 3d.).

The Departure in the Reciprocity Arrangements with Canada

But the position is entirely changed by the proposed Reciprocity Agreement between Canada and the United States.* For the first time important items of manufacture are to be made the subject of an arrangement, and the declarations of President Taft † show that leading American statesmen have definitely in view, and have actually proposed to Canada, a complete commercial union, under which Canada would be driven to abandon the British interpretation of most-favoured-nation treatment in favour of the United States interpretation, and would in fact be forced out of the orbit of the treaty system of the British Empire.

The United States and British Interpretations

As fully explained in the Tariff Commission Memorandum on "Most-Favoured-Nation Arrangements and British Trade" (MM. 43), the United States has maintained throughout her history what is in effect the interpretation of concession for concession which was held by British Governments prior to the Free Trade era, and Japan has on occasions adopted a similar view; that is to say, the United States maintains the qualification that concessions to a particular State in return for concessions from that State are only to be extended to most-favoured-nation States which give corresponding favours. United States diplomatists have consistently asserted that in spite of the most-favoured-nation clause, and even though the clause itself may not contain an express stipulation to that effect, a nation may always require an equivalent for concessions demanded under the operation of the clause. British Governments have consistently resisted this view, maintaining since 1860, with some exceptions, that most-favoured-nation countries must grant to the United Kingdom automatically, and without further compensation, every tariff concession extended to any other country. The British interpretation is the one generally adopted by all countries except the United States, and the contention of British Ministers, as stated by Earl Granville in a dispatch to Mr. West of February 12, 1885, has been that should the system contemplated by the United States be widely adopted, "there will be a return to the old and exceedingly inconvenient system under which the same article in the same country would pay different duties varying according to its country of origin, the nationality of the importing ship, and perhaps at some future time, varying also with the nationality of the importer himself. It is, moreover, obvious that the interpretation now put forward would nullify the most-favoured-nation clause; for any country, say France, though bound by the most-favoured-nation clause in her treaty with Belgium, might make treaties with any other country involving reductions of duty on both sides, and, by the mere insertion of a statement that these reductions were granted reciprocally and for a consideration, might yet refuse to grant them to Belgium unless the latter granted what France might consider an equivalent. Such a system would press most hardly on those countries which had already reformed their tariffs and had no equivalent concessions to offer, and therefore Great Britain, which has reformed her tariff, is most deeply interested in resisting it."

Differentiation against the United Kingdom

Owing to the exceptional interpretation given to most-favoured-nation treatment by the United States nearly £3,000,000 worth of British products would, under the proposed reciprocal arrangement, be subject to higher duties in the United States than if the same articles were imported into the United States from Canada. These products are set out in the following Table :—

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*See Tariff Commission Memorandum on "The Proposed Reciprocal Trade Arrangement between Canada and the United States of America": M.M. 44 (London: P. S. King & Son, 3d.).

† In an address to the Members of the Southern Commercial Congress at Atalanta, Georgia, on March 10, 1911, President Taft said :—"When we entered upon the negotiations I authorised the Secretary of State and his commissioners to offer free trade in everything, but this Canada could not grant us, because she has a protective system and was afraid of the competition of our better organised industries. . . . . Canada is at the parting of the ways. If we now reject this opportunity to bring about closer business and trade relations and insist upon the continuance of an artificial wall between the two countries—which differ no more in conditions of labour and production than do Kentucky and Tennessee or Georgia and Alabama—we shall throw away an opportunity for mutual benefit not likely to recur. It will be a course as blind as that which was followed by the Colonies under the articles of confederation when each colony taxed the imports from every other colony—a disastrous policy, which was the main cause for the adoption of the present Constitution and its interstate commerce clause. As I have had occasion to say in urging upon Congress the adoption of this agreement, Canada is our good neighbour. Against her alone, of all the powerful nations of the world, we have felt under no necessity to establish a navy or fortify our frontier. For nearly a hundred years, under an agreement that has attracted the admiration of all promoters of international peace, we have had no battleships and no forts between us and her. She is our natural customer; we are her natural customers. Geography and the natural laws of trade, if uninterrupted by an utterly unreasonable wall, would give us a north and south business of large extent and necessarily beneficial to both. Why, then, should we hesitate?"

TABLE 1.—UNITED STATES. IMPORTS FROM UNITED KINGDOM AND CANADA IN 1908/9 OF PRINCIPAL ARTICLES AFFECTED BY THE CANADA–UNITED STATES RECIPROCITY AGREEMENT.

	U.S.A. Imports.		U.S.A. Tariff under Agreement.		Difference of Tariff in favour of Canada and against the United Kingdom.
	From United Kingdom.	From Canada.	Against United Kingdom.	Against Canada.	
Beans and dried pease	£ 31,000	£ 42,000	Beans 1/10½ per bushel Dried pease 1/0½ per bushel	free	Beans 1/10½ per bushel Dried pease 1/0½ per bushel
Potatoes	550,000	114,000	1/0½ per bushel of 60 lbs.	free	1/0½ per bushel of 60 lbs.
Herrings, pickled or salted, &c.	185,000	15,000	¼d. per lb.	free	¼d. per lb.
Mackerel and salmon, pickled or salted	125,000	65,000	½d. per lb.	free	½d. per lb.
Other fish, cured or preserved...	85,000	210,000	⅜d. per lb.	free	⅜d. per lb.
Salt	59,000	6,000	In bulk 3½d. per 100 lbs. In bags, &c. 5½d. per 100 lbs.	free	In bulk 3½d. per 100 lbs. In bags, &c. 5½d. per 100 lbs.
Mica	22,000	28,000	2½d. and 5d. per lb. plus 20 %	free	2½d. & 5d. per lb. plus 20 %
Glycerine	149,000	13,000	½d. per lb.	free	½d. per lb.
Tin plates, terne plates, and tagger's tin	667,000	3,000	⅗d. per lb.	free	⅗d. per lb.
Wire rods	20,000	600	$\frac{3}{20}$d. per lb., &c.	free	$\frac{3}{20}$d. per lb. &c.
Coke	16,000	95,000	20 %	free	20 %
Anchovies and sardines packed in oil or otherwise * ...	18,000	200	1¼d. per box, &c.	1d. per box, &c.	¼d. per box, &c.
Pickles and sauces	42,000	—	40 %	32½ %	7½ %
Asbestos, manufactures of ...	24,000	—	25 % & 40 %	22½ %	2½ % & 17½ %
Cutlery †	75,000	—	40 % to 90 %	27½ %	12½ % to 62½ %
Watches and clocks and parts ‡ .	20,000	600	40 %, &c.	27½ %	12½ %, &c.
Feathers and downs, crude not dressed, coloured or manufactured	663,000	400	30 %	12½ %	17½ %
Automobiles and parts	57,000	4,000	45 %	30 %	15 %
Leather manufactures	31,000 §	1,000 ‖	40 %, 45 %, 50 %	30 %	10 %, 15 %, 20 %

* The tariff under agreement only applies to fish packed in oil. † The tariff under agreement only applies to knives, forks, &c. ‡ The agreement does not refer to parts of watches. § United Kingdom Exports to United States, 1908. Includes some items not mentioned in agreement. ‖ Canadian Exports to United States, 1908-9.

The Importance of Differentiation

In answer to a question in the House of Commons on this subject on February 9, 1911, Mr. McKinnon Wood, Under-Secretary of State for Foreign Affairs, said that the British Government was assured by Canadian Ministers that this differentiation was of "no practical importance." On the other hand, it is clear from the foregoing table that even at the present time it is of importance, and having regard to the potentialities of Canada it must in the future become of far greater moment. In principle and in relation to the commercial arrangements of the Empire the differentiation would, moreover, become of the greatest immediate importance, as shown in Section B of this Memorandum.

Furthermore, it is to be remembered that the interpretation put upon most-favoured-nation treatment by the United States places the United Kingdom in an entirely different position from that of any other country desiring a modification of the United States tariff in her favour. Germany, for example, will suffer the same differentiation as the United Kingdom, but Germany, having a negotiating tariff, can offer to the United States reciprocal concessions in order to secure for her products the lower United States duties now granted to Canada. The United Kingdom, having no reciprocating tariff, is without effective means of negotiating for concessions from the United States.

Other countries possessing negotiating tariffs and competing with the United Kingdom in the United States market are in a similarly advantageous position in negotiating for lower United States duties.

The Position of Germany in the United States Market

The importance of this aspect of the question is shown by an examination of the character and extent of German competition in the United States. It will be seen from the following table that this competition extends throughout almost the whole range of British trade with the United States. The items covered by the Canadian reciprocal agreement are printed in italics, but the experience of previous negotiations suggests that it would be the purpose of German representatives in any negotiations to obtain concessions on as many other items of competitive trade as possible.

TABLE 2.—UNITED STATES. IMPORTS OF MANUFACTURES FROM UNITED KINGDOM AND GERMANY 1908/9 (in thousand £).

(Items, wholly or in part, included in the Canada-United States Reciprocity Agreement are printed in italics).

	Germany.	United Kingdom.		Germany.	United Kingdom.
Automobiles and parts	*69*	*57*	Iron and steel, manufactures of—		
Beads and bead ornaments ...	49	1	Pig-iron	40	593
Brushes	40	46	Ingots, blooms, &c.	54	277
Buttons and button forms ...	54	11	*Cutlery*	*269*	*75*
Cement	81	24	Machinery	358	404
Chemicals (dutiable)	2,164	1,261	All other (dutiable)	440	1,241
Clocks and parts	*60*	*7*	Jewellery and manufactures of		
Watches and parts	*40*	*13*	gold and silver	107	28
Cotton manufactures—			Leather and tanned skins ...	440	289
Cloths	94	1,687	Leather gloves	588	198
Clothing, ready-made, &c. ...	279	39	*Other leather manufactures* ...	*61*	*10*
Knit goods	1,335	25	Metals, metal compositions, and		
Laces, edgings, &c.	1,034	1,440	manufactures of...	683	318
All other...	353	965	Musical instruments and parts	180	8
Earthen, stone, and china			Paints, pigments, and colours ...	158	108
ware...	735	501	*Paper and manufactures of* ...	*1,486*	*251*
Feathers, &c., natural and			Pencils	54	53
artificial	*505*	*668*	Silk manufactures—		
Fibres, &c., manufactures of—			Clothing, ready-made, &c. ...	135	79
Linens	352	2,965	Dress and piece goods ...	143	34
All other (dutiable)	136	1,814	Velvet, plushes, &c.... ...	66	4
Furs dressed and manufactures of			All other	771	263
(dutiable)	832	296	Straw and grass, manufactures of	44	4
Glass and glassware—			Toys	919	8
Cylinder and crown glass,			*Wood pulp*	*379*	*11*
polished	41	0	Wooden manufactures (dutiable)	119	79
All other (dutiable)	*227*	*86*	Woollen manufactures—		
Hides and skins, other than fur			Clothing, ready-made, &c....	91	108
skins (dutiable)	82	233	Cloths	261	543
Indiarubber manufactures ...	123	73	Dress goods	403	544
			All other	84	189

Competing Power of Germany

In considering this table of the area of German competition with us in the United States market, it is important to note (as explained in detail in the Tariff Commission Memorandum on "The Export Trade in Manufactures of the United Kingdom, Germany, and the United States," MM. 40) that the competing power of Germany in protected markets is greater than that of the United Kingdom. Thus in 1909, the latest year for which figures are available, the exports from Germany and the United Kingdom to identical protected markets were: Germany £95½ millions, United Kingdom £49 millions, and the increases over 1895 were: Germany £53 millions, United Kingdom £12 millions.

The commercial relations at present existing between Germany and the United States are governed by a law of the 5th February, 1910, and a resolution of the Bundesrat promulgated on the 7th February, 1910. It is there decreed that the rates of duty conceded in the commercial treaties now in force are to be applied to the products of the United States and Porto Rico from the 8th February, 1910, onwards until further notice, and this so long as the products of the German Empire and of the countries and territories forming a customs union with it are not subjected in the United States to rates of duty higher than those provided for in Section 1 of the American Customs Tariff Law of 5th August, 1909. Thus the United States is at present only debarred from imposing its maximum tariff upon German goods, but at the time of this agreement there was, of course, no question of actual differentiation against German goods in the United States market.

The Position of other Nations

Switzerland and Austria-Hungary, and most of the other countries of the world, are also placed in a differential position in the United States market by the Canadian reciprocal arrangement, though from the point of view of trade affected the differentiation only becomes of practical importance as Canada develops an export trade in manufactured goods. The highly competitive relationship between the industrial nations of Europe makes it probable that should Germany effect a treaty with the United States these other nations would seek corresponding concessions, from all of which the United Kingdom, possessing no negotiating tariff, would be debarred.

(B) THE POSITION OF CANADA AND THE OTHER DOMINIONS AND INDIA.

Most-Favoured-Nation Treaties to which Canada is a party

Canada as a part of the British Empire is concerned with many most-favoured-nation treaties concluded by the United Kingdom. It has been stated by both British and Canadian Ministers that Canada is bound to give to the following countries the benefit of any reduction of duties to any country:—

Argentine Republic	Denmark	Spain
Austria-Hungary	Japan	Sweden
Bolivia	Norway	Switzerland
Columbia	Russia	Venezuela

France is also entitled to most-favoured-nation treatment on all the articles included in the Franco-Canadian Convention (see MM. 41). But the list of commercial treaties between Great Britain and foreign powers containing most-favoured-nation clauses which apply to the different parts of the Empire is a considerably larger one, as will be seen from the tabular statement published on p. 10 of this Memorandum.

The treaties with all the twelve countries named above, except Austria-Hungary, Japan and Spain, were negotiated before the passing of the British North America Act of 1867. Canada then had no opportunity of adherence or to dissent from Imperial treaties. In the case of the subsequent Imperial treaties with Austria-Hungary and Japan, Canada and the other Dominions were given power to adhere and did adhere; while in the case of the *modus vivendi* with Spain, they were given power to dissent, but did not dissent

The Inconvenience to Canada

Prior to the negotiation of the Franco-Canadian Treaty of 1910 little practical importance was attached to this extension of Canada's tariff favours to foreign countries which had made no reciprocal concessions. But when by this special treaty Canada gave France the benefit of her new Intermediate or negotiating tariff on certain goods, and gave even lower rates on other goods, it was found, especially by Canada, to be an inconvenience that the twelve most-favoured-nations should also be able to claim these lower rates. The inconvenience is greatly increased by Canada's proposed reciprocal arrangement with the United States.

Canadian Representations in 1892 against Most-Favoured-Nation Obligations

The question in its general aspects has been a subject of repeated discussion between British and Canadian Ministers. As far back as 1892 the Senate and the House of Commons of Canada adopted a memorial to Her Majesty* setting out objections to the system of most-favoured-nation treaties and suggesting the adoption of the principle of reciprocal concessions as between the various parts of the British Empire and between the Empire and foreign nations. The memorial declared that the obligations of most-favoured-nation treatment imposed on Canada by the old Imperial treaties were

> "incompatible with the rights and powers subsequently conferred by the British North America Act upon the Parliament of Canada for the regulation of the trade and commerce of the Dominion; and that their continuance in force tends to produce complications and embarrassments in such an Empire as that under the rule of Your Majesty, wherein the self-governing Colonies are recognised as possessing the right to define their respective fiscal relations to all foreign nations, to the mother country, and to each other.
>
> "Your memorialists further believe, that in view of the foreign fiscal policy of increasingly protective and discriminative duties, it is clearly adverse to the interests of the United Kingdom, and of each and all of its possessions, that the Parliament of the United Kingdom, or of any of Your Majesty's self-governing Colonies, should be thus restricted in the power of adopting such modifications of its tariff arrangements as may be required for the promotion of its trade, or its defence against aggressive or injurious measures of foreign policy.
>
> "Your memorialists desire also to point out that the immense resources of the Dominion in its facilities, and its lumber, require for their profitable development the largest practicable extensions of its markets, more especially in countries whose native supply of such productions is limited, while its rapidly developing manufacturing industries demand large and increasing supplies of raw material, to be mainly supplied by countries which are extensive consumers of the productions of Canada. Your memorialists believe that among the countries with which such an interchange of traffic takes place, the British Empire holds the highest rank in amount, and from its diversity of climate and productions affords the widest prospect of rapid, and practically limitless, increase, while the trade of the Dominion with the United States is second only to that with the British Empire, and its development and extension are of great importance to us; though, from the similarity of most of the products of the two countries, it is probably not susceptible of so great an expansion as might be effected in the interchange of traffic with the Empire.
>
> "Your memorialists earnestly desire to foster and extend the trade of the Dominion with the Empire, with its great neighbour the United States, and with other countries throughout the world, wherever opportunity offers; and believe that by mutual concessions, and the adoption of measures for the re-arrangement of trade relations between the various portions of the British Empire, and between the Empire and foreign nations, important and lasting beneficial results may be attained, and that to the way of the attainment of these great objects the continuation of the restrictions imposed upon Canada and other portions of the Empire by the so-called favoured-nations clause creates an unnecessary and unjustifiable obstruction."

In reply the British Government made the following intimation †:—

The British Reply

> "Many of the commercial treaties entered into by this country contain most-favoured-nation clauses, and these treaties apply in many instances to the mother country and to all the Colonies. In order, therefore, to confer upon the Dominion complete freedom in its negotiations with foreign powers, it would be necessary to revise very extensively the existing commercial treaties of the British Empire, and a great break up of existing commercial relations, of which Canada now enjoys the benefits, is involved in the suggestion."

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* C.—7553. 1894. p. 54.

† C.—7553. 1894. p. 148.

"Complete Break up" of British Commercial Relations

It will be noted that in this despatch of 1892 the British Government took a most serious view of the suggestion of the separation of Canada from the Imperial treaty system, involving as it would a "complete break up" of the commercial relations of the whole British Empire with foreign countries. Similarly in the British House of Commons on March 23, 1911, Sir Edward Grey, Secretary of State for Foreign Affairs, stated that the withdrawal of Canada from most-favoured-nation treaties would involve the denunciation of these treaties by the Imperial Government.

The Trade at Present Affected

The material interests at present affected by Canada's enforced concessions to most-favoured-nations are inconsiderable. The following is a statement of the value of the imports into Canada from most-favoured-countries of articles covered by the reciprocal agreement between Canada and the United States. This is the trade upon which Canada is compelled to give lower duties without reciprocal concessions; in the case of France the concessions apply only to the items which are common to the Franco-Canadian convention and the Canada-United States agreement:—

France	£78,100	(motor cars, watches, cheese, anchovies, canned vegetables, macaroni, confectionery, &c.).
Switzerland	10,900	(watches, cheese, meat extracts, &c.).
Austria-Hungary	10,700	(beans, watches, &c.).
Japan	16,400	(vegetables, fish, &c.).
Norway	20,400	(anchovies, &c.).
Spain	7,200	(pecans, &c.).
Sweden	600	
Russia	400	
Denmark	200	
	£145,000	

The Effect of Mr. Taft's Proposal

But although the amounts of trade of these countries immediately and directly affected are thus seen to be inconsiderable, it has to be remembered that every extension of Canadian reciprocity is made increasingly difficult by these most-favoured-nation treaties, and exposes Canada to diplomatic complications. Moreover, if reciprocity with the United States moves in the direction of the proposals made to the Canadian Government by Mr. Taft in the course of the present negotiations, *i.e.* complete freedom of trade across the frontier, the treaties could not be maintained short of the destruction of the Canadian tariff as a revenue-producing agent. In fact the nearer Canada approaches to freedom of trade with the United States the nearer she must approach to general free importation if the most-favoured-nation clause is maintained in its present form. Canada's imports from the United States are of the same character as the imports from most-favoured-nation countries, that is to say manufactures, and are similar also to the imports from the United Kingdom. It follows, therefore, that if Canada should be driven by circumstances to accept the proposal made by the United States in February, 1911, for "free trade in everything" between the two countries, practically the whole of Canada's imports from all countries would be placed on the free list, and both the revenue-producing power of the Canadian tariff and its power of protecting Canadian manufactures must be destroyed, while the British preference would disappear.

The Canadian Tendency to Adopt the United States Intrepretation

The modification of tariff systems would not end with Canada. The more densely populated and industrial Canada became the more liable the United States would be to incursions of foreign goods over the Canadian frontier if they were admitted at lower rates into Canada than into the United States. The net result would be a tendency on the part of the two countries to approximate in their tariff systems. Both Canada and the United States would have to look forward to a very general modification of the tariff systems in the direction of free importation; or else the Canadian and United States tariffs would come into greater conformity on protectionist lines. As things are, under the arrangement now agreed to by the two governments, the pressure which could be exercised by the United States upon Canadian policy would, it is anticipated, in the absence of the adoption of an Empire policy by the United Kingdom, lead Canada to seek release from her most-favoured-nation obligations and to adopt the reciprocal interpretation of the United States.

An Empire Proposal

It has been suggested that the powers of the several States of the Empire should be used jointly in the negotiation of commercial treaties, and that the advantages so obtained would be far greater than by the separate and isolated action of the United Kingdom and the Dominions, each negotiating independently with foreign powers. Under such a system of joint action the individual negotiating power of the Dominions would be greatly increased, and there would be a wider range within which advantages peculiar to themselves could be obtained by their own representatives acting as collaborators with the representatives of the United Kingdom and other States of the Empire.

The Hon. Alfred Deakin, as Prime Minister of Australia, gave expression to this view at the Colonial Conference of 1907 (Cd. 3523), pages 255 and 258, when he said:—

"The power possessed by the British Empire over foreign nations by its possession of a great market—a market to be opened or closed to some extent or any extent—is little realised, but the most casual observer must recognise the strength of the Empire's position, which is certainly enormous, should all its component parts, combining together, use their power to meet the fiscal attacks of foreign nations upon any portion of the Empire. It is a case of all for each and each for all . . . . What we would urge in this connection is our obligation at all times to consistently pursue a close examination of the opportunities for inter-Imperial trade. Even if they cannot be found, or cannot be found in such abundance as we would desire, the time which is spent in seeking for them would be far from wasted, and would be greatly appreciated by those whom it was desired to help. I cannot see that any people held together by the many ties which have constituted us the nation we are to-day can lose. It appears to us that there are many directions in which it could gain by a recognition of the high value of the growth of a sense of corporate unity, the growth of a sense of mutual dependence between British peoples, coupled with a recognition of the difference, and sometimes of a great difference between the demands which may be made upon each of our Dominions and the Mother Country between themselves, and those made upon us by foreign countries. There are communities whose strength may at times appear to be intended to become a menace to the whole or parts of this Empire, and surely it cannot be maintained that a trade with them which is one half to their advantage, to which they are parties, and of which they therefore share the advantage, is comparable from a national point of view to the trade with those of your own flesh and blood, under your own flag, with whom it is your interest in the face of such rivals to strengthen yourself by every possible means in your power."

Mr. Balfour, speaking at Lambeth on April 6th, 1911, said:—

"I do most firmly believe that there never was a period in the history of the world when it more behoved the inhabitants of these islands—very small islands in rather a remote corner of the globe—increasingly to strengthen their organised hold upon those great territories which their children have occupied, or which have come in one way or another under their influence, and where their influence is so consistently used in the cause of good order, good government, freedom of conscience, education, security, prosperity. Is it not evident to any student of history that in the struggle—if you like, a regrettable struggle, one that we have not provoked—in the struggle, commercial and other, now going on between the great civilised nations of the world, there are great advantages in belonging to a large organisation rather than to a small organisation. I do not think that at present we use in the best possible way the unlimited resources of the British Empire. I do not think that we have done all that it was in our power to do to bring together the great sister democracies of which that Empire in the main consists. I think that we have missed precious opportunities and are missing precious opportunities—opportunities that were once given to us but which, as it seems to me, are hour by hour becoming more remote and more difficult of attainment, opportunities which perhaps in a few months may be gone never in any full measure to return. Nevertheless, without going into that great controversy on which I have spoken and shall have to speak again, is not there lying behind all these superficial difficulties the

essential fact that if we and our sister States will consent to organise ourselves for defence, for commerce, for many aspects of higher education, for many purposes of high civilisation, we shall obtain a strength which we never could hope to get if we were all separate, all isolated, united merely by the sympathy of a common origin, a common language, and common institutions, but with nothing apart from these sentimental and historical aspects to keep us together? I am convinced, most firmly convinced, that while the Imperial problem presented to us at this moment is not only more difficult than any corresponding problem which other great nations have had to solve, but is also entirely different in character from that which any other great nation has to solve—different from the Roman, still more different from the pre-Roman Empires, different in every respect—nevertheless, if we can solve it in spite of these difficulties, it will bring a future of greatness and glory—no vulgar greatness or vulgar glory—and the real interests of peace, freedom and civilisation—(cheers)—to a population of men of our own way of thinking in the very forefront of civilisation in a manner in which history has no parallel. Our difficulties will show no parallel either to the splendidness or the fruitfulness of our triumph."

Treaties applicable to British Dominions and India

The following list compiled from the Foreign Office Return of Most-Favoured-Nation Treaties in Force (Cd. 3395, 1907) gives all the treaties containing most-favoured-nation clauses which apply to India, Australia, New Zealand, and Canada.

India.	Australia.	New Zealand.	Canada.
Abyssinia, 1897.	Abyssinia, 1897.	Abyssinia, 1897.	Abyssinia, 1897.
Argentine, 1825.	Argentine, 1825.	Argentine, 1825.	Argentine, 1825.
Austria-Hungary, 1876.	Austria-Hungary, 1876.	Austria-Hungary, 1876.	Austria-Hungary, 1876.
Belgium, 1898.	Belgium, 1898 (Queensland).	Bolivia, 1840.	Bolivia, 1840.
Bolivia, 1840.	Bolivia, 1840.	China, 1902.	China, 1902.
China, 1902.	China, 1902.	Colombia, 1866.	Colombia, 1866.
Colombia, 1866.	Colombia, 1866.	Corea, 1883.	Corea, 1883.
Corea, 1883.	Corea, 1883.	Costa Rica, 1849.	Costa Rica, 1849.
Costa Rica, 1849.	Costa Rica, 1849.	Denmark, 1660/1 & 1670.	Denmark, 1660/1 & 1670.
Denmark, 1660/1 & 1670.	Denmark, 1660/1 & 1670.	Egypt, 1889.	France, 1893.
Egypt, 1889.	Egypt, 1889 (Queensland and Tasmania).	France (Tunis), 1897.	France (Tunis), 1897.
France (Tunis), 1897.	France (Tunis), 1897.	Greece, 1886 & 1904.	Japan, 1906.
France, 1903.	Greece, 1886 & 1904 (except New South Wales).	Italy, 1883.	Liberia, 1848.
Honduras, 1887.	Honduras, 1887.	Liberia, 1848.	Muscat, 1891.
Japan, 1904.	Italy, 1883 (except South Australia).	Persia, 1857 & 1903.	Persia, 1857 & 1903.
Liberia, 1848.	Liberia, 1848.	Russia, 1859.	Russia, 1859.
Muscat, 1891.	Mexico, 1888 (except New South Wales).	Spain, 1894.	Spain, 1894.
Netherlands, 1824.	Muscat, 1891 (Queensland).	Sweden & Norway, 1826.	Sweden & Norway, 1826.
Persia, 1857 & 1903.	Paraguay, 1884 (except New South Wales & South Australia).	Switzerland, 1855.	Switzerland, 1855.
Russia, 1859.	Persia, 1857 & 1903.	Uruguay, 1885.	Venezuela, 1825.
Servia, 1893.	Russia, 1859.	Venezuela, 1825.	
Spain, 1894.	Salvador, 1862.		
Sweden & Norway, 1826.	Servia, 1893 (Queensland & Victoria).		
Switzerland, 1855.	Spain, 1894.		
Venezuela, 1825.	Sweden & Norway, 1826.		
Zanzibar, 1886.	Switzerland, 1855.		
	Venezuela, 1825.		

(C) DIRECT NEGOTIATION AND MOST-FAVOURED-NATION ARRANGEMENTS.

In order to understand fully the points dealt with in the previous sections it becomes necessary to examine the claims put forward on behalf of the British interpretation of most-favoured-nation arrangements, and to indicate the advantages claimed for it and also for the foreign practice of direct negotiation on the basis of a tariff, and especially of negotiation on the basis of concession for concession, *i.e.* confined to the negotiating parties.

The Free Trade View

As was shown in detail in the Tariff Commission Memorandum on most-favoured-nation arrangements (MM 43), the Free Trade view very generally held in England may be stated thus :—

1. Negotiations between European countries and the conclusion of treaties containing most-favoured-nation clauses bring about a lower rate of duty all round.

2. The British position is guaranteed by the fact that owing to our most-favoured-nation treaties with the various States of the world, British products receive all the advantages which any one State secures from any other State.

3. Although tariffs may be raised, the United Kingdom suffers no disadvantage as compared with other States.

It would follow from this that British interests do not require that the United Kingdom should take any direct part in tariff negotiations, that the position is entirely safeguarded by the automatic operation of the most-favoured-nation clause. There was no doubt some truth in this contention up to 25 or 30 years ago, when the United Kingdom was indisputably predominant in all manufactures. But the situation has been entirely altered. Negotiations are now carried on between countries which are on the same plane of production, and the object of all these countries in concluding a treaty is to safeguard any concessions they may themselves obtain.

Other Considerations

There are, however, other considerations to be remembered in estimating the advantage to the United Kingdom of the most-favoured-nation treatment, viz. :—

1. The most-favoured-nation clause is of no advantage to this country in relation to certain countries—*e.g.*, Sweden and Denmark, which have a General Tariff from which no reductions have been made to any country.

2. In such a case as that of the new tariff of the United States, where the maximum tariff is really a penalty tariff, the minimum tariff is practically a general one. Under the agreement with Canada, however, the United States tariff would become a dual tariff of quite exceptional type, and under it special concessions will be given to those favoured countries who were able to give equivalent concessions.

3. In the case of a General and Conventional Tariff such as that of Germany, while this country is entitled to the conventional rates negotiated by other countries, a large proportion of imports from this country is unaffected by such concessions owing to the fact that the countries bargaining with Germany have not included these goods in their negotiations.

4. Even where concessions come to the United Kingdom as a result of the indirect negotiations of other countries the reduced rates are in many cases still so high as to leave wide scope for further reduction by direct negotiation.

The examination of the statistical bases of these rival contentions as made in MM 43 shows that the gain to the United Kingdom from the operation of the most-favoured-nation clause is much smaller than the gain of other countries from direct negotiation, despite the fact that the purchasing power of the United Kingdom is greatly in excess of that of any other country.

Limitation in the Operation of Most-Favoured-Nation Arrangement

An analysis of the trade returns of six typical protected countries, viz., France, Germany, United States, Austria-Hungary, Italy and Japan for 1908 shows as follows :—

In the first place each of these highly protected countries has a large free list, which includes many raw and half-manufactured materials. In the case of France, for instance, the free list extends to £11,000,000 out of the £31,700,000 worth of goods imported from the United Kingdom in 1908. The United States has a free list covering £15,400,000 out of

£43,500,000 of imports from the United Kingdom, and even of manufactures alone out of £26,000,000 no duties are levied on £6,500,000, one half of which consists of block tin. Taking the six countries as a whole it is seen that out of £149,500,000 of imports from the United Kingdom, £55,700,000, or 37 per cent., are non-dutiable, of which £55,100,000 are unaffected by the most-favoured-nation arrangement.

Secondly, about £66,000,000 of the dutiable imports into these six countries from the United Kingdom are subject to tariff rates which are the same in both the General and Conventional Schedules, and are therefore unaffected by most-favoured-nation treaties. Adding this £66,000,000 to the £55,000,000 worth of free goods, there are seen to be £121,000,000 worth of imports from the United Kingdom which are unaffected by most-favoured-nation arrangements. As regards the £66,000,000, it may be presumed that direct negotiation on behalf of the United Kingdom would be followed by some modification of the tariff.

Thirdly, there remains only £28,000,000 out of the total of £149,500,000 on which the duties are less than the highest rates imposed upon any country. This is the maximum area within which most-favoured-nation treatment can operate to the benefit of the United Kingdom by reason of negotiations carried on by other countries, or by reason of the friendly relations between the United Kingdom and foreign countries. For example, Germany extends most-favoured-nation rates to the United Kingdom although no most-favoured-nation treaty exists between the two countries.

Fourthly, what the United Kingdom gains by the operation of the most-favoured-nation clause is much smaller than other countries who engage in direct negotiation.

Fifthly, seeing that the purchasing power of the United Kingdom is greatly in excess of that of any other country, it may be presumed that the entry of the United Kingdom into the negotiating field would bring about a material reduction in foreign tariffs.

Some Results of Direct Negotiation

Moreover, an analysis of the German and Austrian returns shows that the greatest advantage from most-favoured-nation treatment goes to those countries which have a tariff and can use it in direct negotiation. Thus the present German tariff contains many reductions of duties as the result of negotiation with a number of foreign countries. Only 15 per cent. of British imports into Germany get the benefit of these reductions. But the reductions affect as much as 41 per cent. of the Swiss goods sent to Germany and 50 per cent. of the Austrian goods.

Effect of a Negotiating Tariff

The effectiveness of the most-favoured-nation clause appears from these figures to depend upon the skill with which a negotiating tariff is employed. The United Kingdom, which has no negotiating tariff, and no opportunity of making direct tariff representations, derives the least advantage from most-favoured-nation treaties. France, which possesses a tariff, but does not engage in direct negotiations, enjoys a larger measure of benefit. The full benefit appears to be derived by those countries like Austria and Switzerland, where negotiations are fully supported by tariff machinery.

In the case of Austria, the proportions of the dutiable imports benefiting from reduced duties are:—Italy, 90 per cent. of the whole imports into Austria from that country; Russia, 89 per cent.; Switzerland, 82 per cent.; Germany, 66 per cent.; and United Kingdom, 50 per cent.

The Case of Germany

The figures for manufactures in the case of Germany are as follow:—

TABLE 3.—GERMANY. IMPORTS OF MANUFACTURES FROM VARIOUS COUNTRIES AND AMOUNTS SUBJECT TO CONVENTIONAL RATES LESS THAN THE GENERAL RATES.

	Total Imports.	Imports on which Conventional Rates less than General Tariff were imposed.	Per cent.
	Thous. £	Thous. £	
United Kingdom	9,529	2,680	28
France...	7,132	1,975	28
Austria-Hungary	6,491	2,447	38
Switzerland	4,349	2,211	51

Cotton and Leather

As an example the case of cotton manufactures may be taken. Imports into Germany from the United Kingdom in 1909 were £1,642,000. Of this, £294,000 worth, or about 18 per cent., got the benefit of lower conventional rates. Our principal competitor in the German market was Switzerland which sent £531,000 worth, out of which £313,000 worth, or 60 per cent., got the benefit of conventional rates. In Leather Wares, out of an import of £140,000 worth from the United Kingdom, £62,000 worth, or 45 per cent., got lower conventional rates. On the other hand, in the case of Austria-Hungary no less than £340,000 worth out of a total of £386,000 worth, or about 88 per cent. of the total, benefited by conventional rates.

The Case of Austria

Similarly the lower conventional rates granted by Austria-Hungary to Germany and the United Kingdom respectively represent concessions of the value of £900,000 in the case of Germany, and only £180,000 in the case of the United Kingdom.

Evasion of the Most-Favoured-Nation Arrangements

In the opinion of representative British traders the less advantageous position of the United Kingdom is mainly due to the absence of direct negotiation. This was of minor consequence in the days of simple tariffs, but is now much more important owing to the greater specialisation and the more detailed classification of tariff schedules. Thus, formerly, yarns were subject in most tariffs to a single rate of duty; now they are subject to many rates, varying with the kind and manufacture of yarn, and it is easy to grant concessions which have a special value for a reciprocating country and small, if any, value for a non-negotiating country such as the United Kingdom which depends alone upon the automatic operation of the most-favoured-nation arrangement. A similarly limiting result follows from the modern tendency to supersede *ad valorem* by specific rates. The evidence of British traders further indicates the way in which modern developments of commercial and international finance and transport tend to nullify and offset most-favoured-nati benefits.

Greater Specialisation of Tariffs

Illustrations of the effect of this tendency to greater specialisation of modern tariffs are given by traders. In the current tariff of Austria-Hungary cotton yarns are classified by counts, whether unbleached or bleached, &c., whether singles or two threads or three or more threads, and whether mercerised, dyed or printed. In each of these cases a separate rate of duty is levied. Finally, on yarn prepared for retail sale a further duty is levied.

Specific in place of ad valorem Duties

The modern practice of levying specific rather than *ad valorem* duties can be made to have the same general effect as the specialisation of tariffs. Having regard to the fact that similar articles produced in different countries may have different weight, it is possible, by graduating duties according to weight, to exclude British products from the advantages conceded on a special weight to a reciprocating country. In such a case the most-favoured-nation arrangement is, of course, ineffectual. In illustration, the machinery duties in the present German tariff are mentioned. In the general tariff, steam engines—to take one item only out of the machinery items—is divided into ten groups. In the conventional tariff, steam engines, which are in combination with pumps or freezing machines, or with cranes, are divided into seven items according to weight, while other steam engines are divided into eleven items. There are many other items in the machinery group, some of which are similarly complex and graduated according to weight.

Conclusion

In view of these circumstances, the practical experience of the preponderating proportion of British traders and of British negotiating and customs experts such as the late Sir Edward Law, the late Sir Charles Kennedy and Sir Charles Follett is shown to have led them to the belief that the full advantages of most-favoured-nation clauses, both to the United Kingdom and the Dominions overseas, can only be secured when the United Kingdom is in possession of a tariff with which to negotiate for tariff concessions.

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